



Federal Finance Administration

Swiss Federal Tax Administration

Swiss Federal Statistics Office

**Reliability Study of the Overall Funding and the Instruments of the New
Financial Equalization System**

Key points

The amounts calculated for allocation to the cantons in 2008 are accurate

The audit conducted by the SFAO did not identify any material weaknesses or errors in the process of collecting, processing and calculating the 2008 data to the new financial equalization system. According to the SFAO, the internal control measures set up by the Reform of Financial Equalization and of the Task Allocation (RET) project organization give a reasonable assurance of the accuracy of the amounts calculated for allocation to the cantons in 2008 with respect to resource levelling, compensation of burdens and hardship relief.

The overall budget for 2008 amounts to CHF 3,738 million. Of this, CHF 3,058 million is allocated to resource levelling and CHF 680 million to the compensation of burdens. A further CHF 430 million has been earmarked for hardship relief.

The SFAO's observations on its follow-up to the 2006 audit

The management of the RET project has implemented practically all of the recommendations made in the SFAO's report of 27 September 2006¹. However, it chose to keep its system of Excel tables for processing and generating data in the new financial equalization system. In 2007, it introduced a data management concept, a data collection and processing plan and a user manual for in-house use, significantly reducing the risks in terms of the integrity and traceability of the 2008 data for the new financial equalization system. Given the financial and political stakes of the RET project, however, the SFAO regards these measures as insufficient. It recommends that the permanent organization, which is due to come into being on 1 January 2008, should reconsider migrating to a more suitable IT environment as soon as possible.

In its response, the Federal Finance Administration (FFA) stated that an assessment of the risks associated with using a system of Excel tables would be carried out by 2009 and that, based on a cost/benefit analysis, it would subsequently decide on whether to implement a new IT solution.

¹ No. 1.6369.601.00189.02



The SFAO's observations on the 2008 data for resource levelling

Some 87% of the resource potential is determined by the federal direct tax (FDT) statistics. The Statistics and Documentation Division (S+D Division) of the Federal Tax Administration (FTA) performs a plausibility check on these data, comparing them with the quarterly FDT statements submitted by the cantons to the Canton Supervision Division (CS Division) within the same office. The implementation of the latter's supervisory function was also subject to an SFAO audit, the results of which will be forwarded to the Finance Delegation for its second ordinary session of 2008.²

The quality assurance system put in place by the RET project organization covers only a portion of the resource potential (around 8% of the total). As a matter of fact, the on-site investigations by the quality assurance group of the RET project organization dealt with two indexes not directly linked to FDT, i.e. that of the taxable earnings of legal entities with a special fiscal status (in 2006) and that of the taxable assets of natural persons (in 2007). The SFAO notes that the checks conducted on the latter covered only a non-representative sample of Swiss cantons.

The SFAO notes the overly approximate implementation of the schedule for collecting cantonal data drawn up by the S+D Division, as well as the existence of significant discrepancies with respect to their reference dates. It also notes that the Cantonal Tax Administrations do not have any formal procedure for certifying the integrity and compliance of the data thus transmitted.

In view of these observations, the SFAO has recommended implementation of a series of measures with respect to the mining and transmission of cantonal data as well as procedures for their control and documentation. In particular, it insisted on the following measures:

- Ensure strict observation of the deadlines for submitting cantonal data and, if possible, use the same cut-off date for all cantons, and for each index.
- Generate synergies between the S+D and CS Divisions of the FTA to ensure detection of any material errors and identification of any risks that could affect the quality of the FDT statistic data collected.

The FTA has indicated its intention to take appropriate measures to address these shortcomings by 30 June 2008. As regards the first recommendation, however, the FTA noted the need for certain exceptions to the principle of a single cut-off date, in the interests of improving data quality.

The SFAO's observations on the 2008 data for the compensation of burdens

The SFAO regards the reliability and traceability of the data produced by the Swiss Federal Statistics Office (SFSO) as sufficient for guaranteeing the integrity and accuracy of the 2008 figures for the compensation of burdens. It noted, however, that the poverty index was partly determined on the basis of the cantons' aggregate data. Nonetheless, the SFAO acknowledged that these data had undergone an appropriate plausibility check.

The SFAO recommended that the SFSO should draw up a description of the data flow, the software used and the databases. *The SFSO confirmed its intention to take appropriate measures by 30 June 2009.*

² No. 1.7022.605.00203.02



The SFAO's observations on the 2008 data for the new financial equalization system

In general, the SFAO recommended that the RET permanent organization should draw up comprehensive instructions on the cantons' collection and submission of the required data and their processing by the federal offices for:

- resource levelling (Art. 22 Ordinance on Financial Equalization and the Compensation of Burdens), and
- compensation of burdens (Art. 28 Ordinance on Financial Equalization and the Compensation of Burdens).

For those recommendations with a deadline of 30 June 2008, the SFAO will check their implementation in the second half of 2008. The other recommendations will be followed up on in the course of future annual audits conducted under Art. 6 (j) of the Federal Auditing Act coming into force on 1 January 2008.

The implementation of the new financial equalization system is a matter of priority for the Finance Delegation

At its first ordinary session of January 2008, the Finance Delegation of the Federal Chambers read the results of this audit and took note of the fact that it will be carried out on an annual basis, the SFAO being given the legal mandate concerning quality assurance of the data and indexes under the new financial equalization system. An appropriate control should be performed to ensure that the substantial sums charged or redistributed among the cantons comply with the new equalization system.

The responses given by the offices in question are shown in italics after each recommendation in this report.

Original text in French